

Forecast Economic Conditions

a) Economics and Demographics

Enabling Legislation

5 MRSA § 3305 (1) (B) (C) and (H): Assigns SPO the responsibility to develop socioeconomic studies and plans; analyze policy alternatives and identify needs and resources; conduct continuing economic analyses of the economy and resources of the State, including economic forecasting; collect data and statistics, including census information, related to Maine's economy; collect information useful to the development of industry; measure and monitor economic distress and poverty; and assist the Governor, Legislature and state departments in formulating economic goals and policies.

5 MRSA § 1710-D: Directs the State Planning Office to provide staff support to the Consensus Economic Forecasting Commission.

5 MRSA § 1710-E: Creates the Revenue Forecasting Committee and designates the State Economist as a member.

5 MRSA § 1710-I: Directs the State Planning Office to provide staff support to the Revenue Forecasting Committee.

Resolve, Chapter 36, H.P. 270: Directs SPO to report annually to the Legislature on the subject of poverty in the State.

In addition to ongoing duties, the Legislature calls on SPO to conduct short-term economic analysis projects. Examples of these include:

- *P.L. 1997, Ch. 643, Sec. BB*: Directs the Maine Department of Transportation and State Planning Office to determine the costs and economic benefits of an East-West Highway in Maine
- *Resolve, Ch. 117, H.P. 542*: Directs SPO to staff the Maine Millennium Commission on Hunger and Food Security
- *10 MRSA § 363 (2-A)*: Directs SPO to conduct an annual analysis of the factors affecting the distribution of the tax exempt state bond cap
- *P.L. 1999, Ch. 99*: Directs SPO to evaluate the business and workforce education needs of Maine's fishing, farming and forestry industries

Positions that Contribute to this Responsibility:

- (1) State Economist (also supports other responsibilities)
- (1) Economist
- (1) Economist (also supports Natural Resources Planning)
- (1) Policy Development Specialist
- (1) Senior Planner
- (1) Senior Planner (PT)
- Shared Clerical and Administrative Support

Description

One of the major reasons for the creation of the State Planning Office in 1968 was to provide the Governor and Legislature with independent economic data and analyses. While the Department of Labor and Maine Revenue Services employ a few economists, the Legislature has charged SPO with much broader responsibilities for research and analysis. SPO's role has evolved over the past 25 years from one of data gathering and reporting to one of policy analysis and advice.

It was not until the 1990's that SPO had any role in revenue forecasting. In 1990-91, Maine faced the most severe economic recession since the Great Depression. It became apparent that the traditional method of predicting revenues was no longer adequate. The 1991 Special Commission on Governmental Restructuring, itself conceived in this period of economic stress, recommended that economic and revenue forecasting should be an open and public process and that, as much as possible, it should facilitate agreement on revenue estimates between the Executive and Legislature. It recommended creation of a Consensus Economic Forecasting Commission with no legislative or executive branch members. The Legislature charged this independent, consensus-based group with developing long-term, macro-economic forecasts and one-, two-, four-, and six-year economic forecasts and directed SPO to staff it.

The economic forecast is the basis for revenue projections for state budgeting. A Revenue Forecasting Committee, chaired by the State Economist from SPO and made up of state officials from the Bureau of the Budget, Maine Revenue Services, and the Legislature's Office of Fiscal and Program Review, estimates revenues and submits their projections to the Governor and Legislature annually. Based on economic trends such as personal income, retail spending, wage and salary earnings, and wage and salary employment growth, the State can take a prospective look at revenues rather than estimating them based on what was collected in previous years. This process has been instrumental in lending credibility to the State's revenue projections.

Throughout the 1990s, the Governor and Legislature asked SPO to develop economic policy recommendations on such issues as utilities restructuring, tax increment financing, or promoting Maine as a retirement destination. The Legislature and Governor look to SPO to prepare major economic studies such as the workforce education needs of Maine's farming, fishing, and forestry industries or the feasibility of an East-West Highway. The Attorney General taps SPO as an expert witness in state tax-related cases, such as enforcement against pyramid schemes and the suit against the State for a tax assistance package approved for Bath Iron Works. Finally, SPO continues to provide reliable economic and demographic data to assist government decision-makers, businesses, the media, social service agencies, and the general public.

Progress towards Goals and Objectives

To achieve its goal of stimulating the development of the State's economy and the conservation of its natural resources, SPO provides economic information upon which state budgeters, policymakers, and businesses rely for budgeting and economic planning. SPO makes annual projections for three key economic indicators: population, personal income, and wage and salary employment. SPO measures its performance by tracking the

accuracy of these projections.

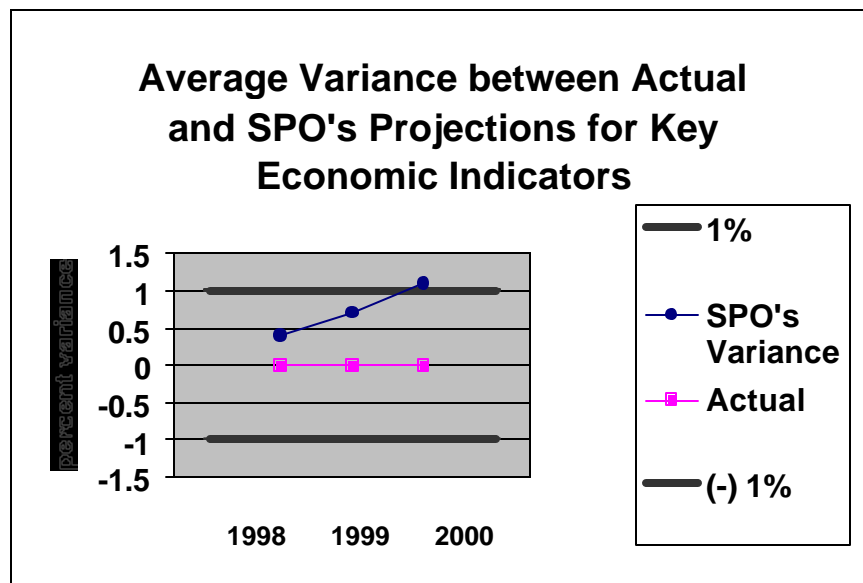


Figure 1: The average variance should be no more than +/-1% in three out of four years

Assessment of Progress

To date, SPO's target accuracy has been achieved, despite somewhat volatile growth in Maine's economy. In recent years, SPO has modified its forecasting approach to improve its accuracy. SPO now produces a preliminary forecast and then modifies it based on the findings of the Consensus Economic Forecast Commission. This then becomes SPO's final forecast against which the office measures its performance budget target.

Performance Outputs for 2000

- 2,000 requests for economic, demographic and census data from the Governor and his staff, legislators, other state agencies, businesses, and the public
- 86% of legislators, department commissioners, and the Governor and Governor's staff said they feel well-informed about Maine's economy in 1999 compared with 59% in 1997
- Produce long-term economic forecast (irregularly)
- Produce short-term economic forecast (annual)
- Produce county economic forecast (semi-annual)
- Produce town population and school enrollment forecasts (semi-annual)
- Produce *Report Card on Poverty* (annual)
- Assist Children's Cabinet, Maine Tourism Association, and Millennium Commission on Hunger and Food Security with economic data and analysis
- Provide technical assistance to Maine Rural Development Council, the Maine Development Foundation for their *Measures of Growth* report, the State Planning Office for its Smart Growth initiative, and the Governor's Office and SPO for their *30 and 1000 R&D* strategy
- Led the development of and published *Farming, Fishing and Forestry: Resources for the Future*, *A Golden Opportunity*, and *A Golden Opportunity II* reports

- Operate Maine Census Data Center and Consortium
- Maintain *MaineGraph*, a web-based, graphical database of over 80 state and national economic data series
- Provide general economic information and education through *Maine Economy Year-end Review and Outlook*, *Maine Retail Sales* quarterly reports
- Make more than 50 presentations and speeches to various organizations each year
- An average of 51% of legislators, commissioners, and the Governor and Governor's staff use SPO's five primary economic publications on a regular basis, including 65% who say they use SPO's *The Maine Economy Year-end Review and Outlook*
- 100% of Revenue Forecasting Committee and 100% of Economic Forecasting Commission members report SPO staff support as *Very Good* or *Excellent*

Summary of Rule-making Activity

SPO has no rule-making authority for its economics and demographics work.

Comparison of Federal and State Laws

Not applicable

Constituencies Served

- Governor and Legislature
- Private businesses
- The news media
- Other State Planning Office programs
- Other state agency programs
- Maine Consensus Economic Forecast Commission
- Maine Revenue Forecasting Committee
- Other Legislative commissions and committees
- Regional development organizations
- Municipal officials and school boards
- University of Maine System
- Non-profit organizations
- Federal agencies
- Maine's Congressional Delegation
- Private, non-affiliated individuals (such as people considering moving to Maine)

Efforts to Coordinate with Others

SPO regularly works with others to coordinate its economic forecasting and analysis work. Examples of successful collaborative efforts include:

- *Economic and Revenue Forecasting*: SPO chairs the Revenue Forecasting Committee that projects state revenues for budgeting purposes and staffs the Consensus Economic Forecasting Commission that produces economic forecasts. Both of these efforts depend on close coordination with experts inside and outside of state government to produce accurate projections of economic and budget trends.

- *Economic Impact Analyses*: SPO coordinates with other agencies of state government to develop economic analyses. For example, when asked to examine the impact that the proposed clearcutting ban would have on the State's economy, SPO worked in conjunction with the Maine Forest Service and an expert group of forestry economists. To determine the costs and benefits of a proposed East-West Highway, SPO and DOT worked jointly to produce an analysis for policymakers' use.
- *Stimulating International Trade*: Working with the Department of Economic and Community Development, SPO staffed the Governor's Advisory Council on International Trade. SPO analyzed the policy issues around strengthening Maine business opportunities in a global marketplace. In response, the Legislature created the Maine International Trade Center, a nonprofit corporation established to enhance the competitive advantage of state businesses desiring to compete in the international market. SPO continues work to improve foreign investment in the State through collaboration with DECD, the Trade Center, and the Maine Arts Commission. SPO serves as the Governor's representative and provides state economic information when foreign delegations visit Maine. SPO also sits on the Maine-Aomori Sister State Advisory Council, a public-private group that works to expand educational, cultural and business relationships with Japan's Aomori Prefecture.
- *Making the Connection in Maine*: The enactment of the federal Telecommunications Act of 1996 ushered in a new era for the telecommunications industry and presented the State of Maine with significant opportunities to benefit from an information economy. Working the Department of Community and Economic Development, SPO outlined key issues that decision-makers were likely to confront, assembled a background paper as a primer for law- and policymakers, and provided factual background for use in developing recommendations for changes in state telecommunications policy. Using a stakeholder process with input from industry, legislators, and the public, SPO developed comprehensive policy recommendations to reduce cost differentials in telecommunications. At that time, the cost of instate, long-distance telephone service in Maine was 62% higher than the median for all states.* The result was legislation that cut instate calls in half and saved millions of dollars for Maine consumers.
- *Fishing, Farming and Forestry*: In order to provide the Legislature with a comprehensive status of Maine's natural resources-based industries and the workforce education programs in place, SPO engaged multiple state agencies and convened an Advisory Council of industry experts. The Advisory Council had six teams, each charged with performing the necessary research and developing recommendations for their area of expertise. SPO coordinated the teams, staffed the Advisory Council, and wrote the report for the Legislature.

Alternate Delivery Systems

The State Planning Office uses a variety of delivery systems to streamline processes, leverage funds, save time and money, and reach more people. Alternatives to traditional delivery systems include: contracting with others to provide services, fee-for-service,

* Source: AT&T, Jan. 29, 1996

using volunteers, interns and research fellows, partnering with other organizations, sharing resources, and using electronic mechanisms.

Examples of successful alternative delivery systems include:

- *Fee-for-Service*: SPO's Census Data Center operates on a subscription and fee-for-service basis. For subscribers, the Data Center provides informational reports and special research at no charge. For other users, data and reports are provided for a fee. Fees and subscriptions fund 60% of the budget to operate the Center.
- *Sharing Resources*: Rather than tracking them itself, SPO relies on other state agency research staff, academia, and private businesses for some data. Some data are provided on a *quid pro quo* basis. For example, SPO provides basic retail sales data and other economic advice and assistance to Maine Street Insights, a consulting and appraisal firm in Gorham. In return, this firm provides SPO with analyses of retail trends in Maine, especially with regard to "big-box" retailers. Often, this firm provides our constituents with expert information assistance free of charge.
- *Internet Technology*: Recently SPO expanded its use of the World Wide Web to disseminate economic data and information. The Office's comprehensive database, *MaineGraph*, is on the web. SPO posts monthly retail sales data by region and store-type to the web, as well as the *Maine Retail Sales Quarterly Report*. Economic presentations, SPO forecasts, the forecasts of the Maine Consensus Economic Forecasting Commission, the annual *Maine Economy Year-End Review and Outlook*, and the annual *Report Card on Poverty* are all on-line. Prior to this, the number of requests for economic data was steadily increasing, creating workload problems for a fixed staff. By directing people to the web for information, SPO reduces calls and e-mail requests. SPO plans to expand its web presence to accelerate this trend.

Emerging Policy Issues

The following economic issues will likely command SPO's time and attention in the coming 1-3 years:

- *The Changing Face of Maine's Population*: Maine's population is growing slowly, it's growing older, it's growing unevenly, and it's growing expensively. Over the last decade, the State's population grew at less than 0.4% per year. Because of slow population growth, labor shortages in key industries may limit the State's economic potential. As the "baby boomers" begin retiring, resulting shortages of working-age adults in Maine may impede economic growth. The uneven nature of the State's growth is reflected in the stagnant populations in the seven counties from Oxford through central Maine to Aroostook and Washington. By contrast, most of the State's population growth has been in the coastal counties. This is part of a long-term migration from inland regions of the State to the coast. A second migration, from the State's hub communities to outlying suburban and rural towns, is also underway. This spreading out of the population is imposing costs on both the hub towns that are losing their populations and the outlying towns that are receiving them. A third migration pattern involves Maine's young adults leaving the State in large numbers.

SPO's Role: *SPO works to address problems arising from changes in Maine's population demographics by promoting Maine as a retirement destination, developing tools and policies to strengthen hub towns, and working to raise Maine's per capita income through enhancing the State's research and development activity.*

- ***A Volatile State Tax Structure:*** Maine's tax structure is one of the most volatile in the country. But the very elements that make it volatile also give it a reputation for fairness. The State's income tax is progressive and Maine does not tax essentials. Instead the State relies heavily on taxes from the building trades and automobiles sales. Because these are the first things people buy when times are good and the first things they defer when times are bad, Maine's tax revenue swings widely.

SPO's Role: *As SPO examines economic policy options for the Governor and Legislature, it is likely to be involved in any comprehensive tax reform efforts. There are also several smaller state tax and funding issues on the horizon in which SPO is likely to play a role by conducting research, providing data, and developing policy alternatives, including: examining how to replace lost tax revenues from the Business Equipment Tax Rebate (BETR); helping determine best use values for assessing farm land under the Farm and Open Space tax law; and balancing student educational opportunity with taxpayer equity in Maine's school funding formula.*

Emerging Programmatic Issues

- ***Dependable Funding for Census Data Center:*** Fees and subscriptions pay for 60% of the costs to operate Maine's Census Data Center, which SPO took over from the Maine Department of Labor in 1998. SPO anticipated that within two years, the center would be self-funding. Yet, in 2000, the Office had to cover some of the costs from its General Fund budget. While SPO continues to seek additional subscribers and market its census data services, it expects that revenue shortfalls will continue.

Background: SPO's Census Data Center distributes data from the Decennial Census. The Census Data Center, previously housed at the Maine Department of Labor, was abolished in the mid-1990s for lack of funding. As a result, Maine became the only state in the nation without a center to coordinate distribution of U.S. census data. At the behest of the U.S. Census Bureau and several state agencies, SPO created a new center in 1998. While census data is available electronically through the U.S. Census Bureau, SPO adds value to the raw data through packaging, interpretation, analysis, and forecasting. The Census Data Center consists of one half-time staff and a small amount of *All Other* money. Funds to pay these costs come mainly from subscribers and fees. To fund fully the Census Data Center with a half-time staff person would cost \$20,000 per year above the subscription fees. For a full-time operation, the cost would be \$50,000.